Canadian industrial development in the twentieth century, has been spearheaded by foreign (largely American) direct investment in manufacturing and resource exploitation. Up to 1970, that process met with little resistance. When C.D. Howe stated, in 1954, that “Canada has welcomed the participation of American and other foreign capital in its industrial expansion”, he was reiterating opinions expressed thirty years earlier by business leaders such as Vincent Meredith, President of the Bank of Montreal: “I do not share this fear [of Americanization] but rather welcome the flow of money which must assist in the development of our
natural resources, give employment to labour, and increase our exports to other countries'. This paper examines the emergence of such attitudes within the Canadian chartered banks, and the process by which bankers came to identify prosperity with foreign direct investment in the Canadian economy.

Much of the revival in the Canadian political economy tradition occurring since 1970, has been prompted by attempts to both explain the origins, and describe the consequences, of foreign participation in Canadian economic development. At the core of this "new political economy" is the reinterpretation of the origins of American direct investment in Canada, commonly referred to as the "Naylor-Clement thesis". The distinctive contribution of the work of Tom Naylor and Wallace Clement rests with the suggestion that the weakness of Canada's indigenous industrial sector resulted, not from a lack of entrepreneurship (the "entrepreneurial failure thesis"), but from the relative strength of mercantile-financial entrepreneurship vis-à-vis industrial entrepreneurship. Naylor and Clement suggest that policies designed to create a relationship of dependency between Canada and the US, in the industrial sector, were implemented because they best served the interests of the dominant mercantile-financial fraction. This thesis has been challenged by both the "left" and the "right". Marxists dislike the presence of nationalist sentiments "aimed essentially at debunking the myth of the validity and integrity of Canadian bourgeois national leadership"; the failure to address the whole spectrum of class relationships within Canada; and the difficulty of demonstrating that Canadian financiers acted as a definable class fraction in pursuit of common goals. Other scholars have point to the inconsistencies in Naylor's argument, which result from the fact that the first thirty years of the National Policy did not spawn significant levels of direct foreign investment in Canada. But, amid the large amount of polemic their work has generated, there have been few substantive, empirical attempts to test the controversial core of the Naylor-Clement thesis.

Of particular theoretical importance to the economist (and to the analysis undertaken in this paper) is the identification of two distinct ideas which are central to the interpretation of Canadian history advanced by Naylor and Clement. First, Naylor and Clement argue that the mercantile-financial fraction in Canada actively encouraged, and pursued, American direct in-
vestment because they identified their own expertise and ambitions as compatible with the industrial development spearheaded by US capital, technology and organization. Naylor describes a process of "industrialization by invitation" from Canada's financial elite.\(^8\) Clement's analysis of Canadian and US business elites suggested that "The actions of the Canadian economic elite must . . . be understood in terms of their place in the continental system. The dominant indigenous elite has entered into an alliance with the dominant comprador elite . . . because each group operates in relatively distinct though complimentary economic activities . . ."\(^9\), and that, "Given the easy movement into financial activities and the barriers to movement into areas of production, Canada's top capitalists . . . sought out and found foreign capitalists willing and able to enter the sphere of production in Canada.\(^10\) (Emphasis added).

Second, both Naylor and Clement argue that capital became locked in the circulation sphere, and that indigenous industrial entrepreneurs were deprived of necessary credit because of loan and investment policies adopted by Canadian financial institutions. They therefore contend that the industrial underdevelopment, which helped open the door for US direct investment in Canada, resulted from the discriminatory capital and credit allocation policies of Canada financiers.\(^11\)

While these two hypotheses are intricately (and for Naylor and Clement, causally) related, any attempt to test their validity through academic research must recognise the distinctive nature of the evidence required to support them. The first idea could be tested through an examination of business development strategies in Canadian financial institutions. It could be supported if there is clear evidence that: (1) financiers not only welcomed, but actively facilitated American direct investment in Canada; and (2) the financiers clearly identified and rationalized their interests as being best served by American direct investment in Canada. The contention that the financial institutions discriminated against indigenous industrialists should be tested through a detailed examination of the process of loan and investment allocation in Canada's major financial institutions. Although a number of authors have addressed this aspect of the Naylor-Clement thesis, their work has resulted in the proposition of at least three alternative theories, rather than any definitive resolution of the debate.\(^12\)
This paper attempts to test only the first hypothesis. Emphasis is placed on examining the process by which Canadian bank executives came to identify their goals of growth and profitability as compatible with foreign direct investment in the Canadian economy. The first part of this investigation provides a brief overview of the strategies for business development pursued by the banks in the late nineteenth and early twentieth centuries. Subsequent analysis describes the emergence of policies, within each institution, to deal specifically with foreign industrial firms operating in Canada. It notes the organization, after WWI, of special departments of the banks charged with soliciting the participation of American, British, and European industrialists in the Canadian economy. The vigour with which foreign firms were pursued by the Canadian banks — and the central part which American industry played in the banks’ plans for growth — demonstrates that Canadian financiers attempted to promote Canadian development through a policy of “industrialisation by solicitation” in the period after 1914. Further, academic economists, employed by the banks, were increasingly charged with both the responsibility of bringing into focus the communality of interests which existed between the Canadian banks and American industrialists — and with identifying areas in which potential for extending that relationship existed.

**Business Development Strategies In The Canadian Chartered Banks 1880-1914**

In the depression of the 1880s and early 1890s in Maritime Canada, the lack of opportunities for making good commercial loans was so acute that the Maritime banks complained of large amounts of “surplus funds”. Although some of the large Central Canadian banks had opportunities to become involved in making loans to railway developers, they also experienced unsatisfactory demand for preferred trade and commercial accommodation. Thomas Fyshe spoke for all of the bankers when, in 1895, he complained that:

> The population and business of the country are both growing very slowly, so much so as to suggest the gravest doubts whether we have been using the best means to make the most of our resources. In a large part of the country the population has been practically stationary for at least one decade...There has been a general sagging of real estate values ... while at the same time our debt and taxation have grown apace.\(^\text{15}\)

In the period 1880-1900, the banks became impatient with the pace at which Canadian development was proceeding. Three
alternative strategies for the employment of funds became widely adopted within the Canadian banking system.

The first was the purchase of bonds — which, at this time, meant largely American railroad issues. Although Canadian banks had been buying some American securities since the first half of the nineteenth century, it was only after 1875 that the strategy of buying corporate bond issues on a large scale emerged.\textsuperscript{14} Between 1881 and 1900, the securities held by all Canadian banks increased from 1.6 per cent of total assets to 9.3 per cent; with 51 per cent of the latter figure being railway and other corporate securities.\textsuperscript{15}

The second business development strategy was designed to diversify loans by increasing the geographical scope of operations, both inside and outside Canada.\textsuperscript{16} But, during this period, it also became clear to the Canadian banks that endeavours outside Canada could not be the primary basis of their operations. Competition from other banks, the cost of training staff in foreign languages, tropical diseases, political upheavals, and the constant threat of prohibitive legislation or high taxation, made it abundantly clear that the Canadian economy needed to be developed in a way which would allow it to provide the main basis for the growth of the Canadian banks in the twentieth century.

The third strategy was based upon the business expected to be generated by the long-awaited opening of the Canadian West to agricultural settlement. While a profitable business could be, and was, built by extending loans to elevator companies and grain merchants, it was soon clear that making loans to Western farmers was not an area in which most of the large chartered banks wanted to engage. The small amounts which farmers needed to borrow, the security they offered, and the time period they needed to make repayments were not in accord with the types of loans the chartered banks preferred to make.\textsuperscript{17}

As the result of the more modest achievements of these policies, an explicit strategy, identifying the desirability of American investment in Canadian manufacturing and resource exploitation, emerged within the banks by the time of the First World War. That strategy was adopted to increase the pace and scope of Canadian economic development, by encouraging US industrialists to produce goods for the Canadian market in Canada and to take control of the exploitation of Canada's nas-
cent resources. It emerged more slowly than the three strategies already outlined but, in that it has been a central factor in Canadian economic development during the twentieth century, it has proved to be both important and enduring.

**Industrialization By Solicitation 1914-1970**

The General Manager's Office of the Royal Bank of Canada made its first, official recognition of the importance of business generated by US companies operating in Canada, in a circular dated 13 January 1919. The circular stated that managers of Canadian branches of the bank should be in touch with Boards of Trade, and other local organizations, to obtain information about American industries contemplating opening a branch in their district. It advised that if "any individual or company has under consideration the advisability of extending operations to Canada, Managers should communicate with Head Office and also with New York Agency in order to supplement the efforts made . . . locally to secure the relative banking business." ¹⁸ The circular also informed branch managers that the New York Agency of the bank was to act as a source of information about US firms considering extending their operations to Canada, so that branch managers might get early warning of any new business prospects in the district.

By December 1919, a new circular had been issued, advising managers of the formal establishment of a "New Business Department" at the New York Agency of the Royal Bank. The functions of this department were: "(i) to get in touch with American firms established or proposing to establish branches outside of the United States at points where we are represented (ii) to make arrangements with other banks, and (iii) to assist generally in the development of the Bank's business." [RB, 19 Dec. 1919.] As initially conceived, the New Business Department had a very broad mandate, which included overseeing correspondent relations. From this starting point, its duties were soon spelled out in more precise terms. By January 1921, a branch of the department had also been established in London, England — with an explicit mandate to "solicit the business of American and British firms having branches or other interests where [the Royal Bank is] established"; and to "canvass for collections" from multinational firms with head offices in the UK or US. [RB, 26 Jan. 1921.] By 1929, it was renamed the "Business Development Department". A branch
was opened in Paris, France, to solicit the involvement of firms, based in continental Europe, in the Canadian economy. Though much of the direct foreign investment in Canada during the 1920s had come from the US, the officers of the Royal Bank echoed municipal, provincial, and federal government hopes that firms in Europe and the UK could be persuaded to open plants in Canada on a similar scale.

During WWII, the operations of the Business Development Departments of the Royal Bank appear to have ceased to a large degree. In the pursuit of post-war recovery, the attentions of the bank turned again to firms headquartered in the US and, to a lesser extent, the UK and Europe. During the 1950s, the New York Agency and the Head Office in Montreal functioned as the centres for co-ordinating the bank’s pursuit of multinational corporations; and as the main centre for the processing and interpretation of information received. To meet the competition of other Canadian banks who operated more branches in the US, the Royal Bank instituted a system of employing representatives who did not do a general banking business. Their job was simply to liaise with existing and potential customers, and correspondent banks, in the major cities of the US. [RB, 20 Sept. 1965.] By the end of the 1960s, the bank had extended this system. The Commercial-Industrial Development Department (as it was named by that time) was established in 14 cities around the world; each office having designated authority for canvassing for business in a certain area. [RB, 5 May 1969, 3]

In 1965, an important new addition to the list of possible tasks given out by the General Manager was that the Royal Bank sought “information regarding companies that can be bought and of companies seeking to buy other companies.” [RB, 20 Sept. 1965, 1] The Canadian banks often sought American buyers for bankrupt Canadian companies in whom the banks were interested, but this policy clearly carried that strategy one step further. By the mid 1960s, the bank was advertising its services as a broker in Canadian firms — not just where insolvency necessitated bank participation in the process of finding a purchaser and reorganising debt; but anywhere where the security of the banking business to be done might be increased by a larger (multinational) firm taking over a smaller one.
It has already been suggested that some of the strategies adopted towards foreign companies were prompted by competition. It is evident that, from the 1920s onwards, the Royal Bank was meeting "particularly keen" competition from similar departments in the other large Canadian banks. Each circular from the period before WWI stressed it was "essential that particulars of new developments should reach the Departments promptly." [RB, n.d.] As the speed of communications between the different urban centres in North America increased, so it seems, did the importance of building a well-organized department, well-connected to prominent individuals and companies.

In the Bank of Nova Scotia, the first explicit formulation of a policy towards the branch plants of US corporations appeared earlier than in the Royal Bank. In 1916, J.A. McLeod (the Assistant General Manager) was circularizing the branch managers to "see that no opportunity for increasing the volume of business is neglected . . ." in the boom expected to follow WWI. He suggested that the potential for the expansion of American firms into Canada offered the best prospects:

> there is already an increasing interest in Canadian trade being shown by manufacturers and others in the United States and branches of American concerns are being established in this country in large numbers. Their operations must mean an addition to the general volume of banking business, and we are desirous of ensuring that we shall obtain the share of this to which we are entitled. The manager who is alert to procure advance information and to act upon it is likely to be most successful in securing business of the sort referred to . . . The services of our representatives at our New York, Boston and Chicago offices are at the disposal of our Canadian managers in any action taken looking to the establishment of connections with American firms or corporations.26

It seems likely that McLeod's concern with American firms was based partly on his knowledge of the US, where he had spent 14 years as either assistant manager or manager of the bank's US branches. It is of particular interest that the US branches of the Bank of Nova Scotia played the same crucial role in its business development strategy as US branches did in the Royal Bank. McLeod's experience in the US did not narrow his vision of the broader field of foreign investment in Canada. Almost from the inception of its New Business Department, the Bank of Nova Scotia was interested in contacting British, European, or other firms who might consider investing in Canadian operations. The bank's London, England, branch opened in 1919 and quickly became an important source of both Canadian and
international business. Although Canadian banks were not allowed to compete with British banks for British business, it was "regarded as cricket that foreign banks approach British companies that might be setting-up in Canada."\(^{21}\)

Through the post-war period and into the 1920s, the Bank of Nova Scotia became increasingly active in soliciting the entry of foreign firms into Canada. In 1919, for example, the General Manager circularized the branches, asking for information on vacant factory buildings in Canada on behalf of Heaton's Agency of Toronto, in co-operation with whom they were attempting to encourage US manufacturers to begin operations in Canada. [NS, 23 Feb. 1919.] In 1928 — while again advertising the importance of US and British branch plants in Canada, and the role which the bank's foreign branches played — McLeod reminded his branch managers that "it is our constant aim to cultivate this class of business." [NS, 7 March 1928.]

It was not until 1931, when another business depression was beginning to seriously affect the bank's ability to utilize available funds, that it upgraded the service offered to US and British firms contemplating opening in Canada, with the formal establishment of a New Business Department. [NS, 21 May 1931.] As in the Royal Bank, "new business" had become a synonym for foreign, multi-national business. The New Business Department was designed to co-ordinate activities involving foreign firms in Canada: processing information received from branches across the country, and mobilizing bank officers in the foreign branches to solicit business from parent corporations.

Almost daily information reaches this office regarding British and American companies who are contemplating establishing plants or expanding the Canadian end of their business... we can be of assistance to such concerns, but in order to obtain... the resultant banking business, it is absolutely necessary to get in touch with such concerns at an early stage of their negotiations. [NS, 21 May 1931.]

In part, the formal establishment of the New Business Department by the Bank of Nova Scotia indicates it was feeling the same level of competition for foreign business as was noted by the Royal Bank. With the US stock market unable to absorb Canadian bank loans to the degree it had before the crash of 1929, the competition became even more strenuous. Other Canadian bank were aggressively pursuing foreign firms, but with a very profitable part of its operations at stake, the Bank of
Nova Scotia was not prepared to simply accept such competition:

we wish our Managers to realise that we do not propose to submit to active competition on the part of other bankers without retaliating. The best method of defence is to attack ... and our representatives at London England, New York, Chicago and Boston, as well as our Southern Branches, will do everything in their power to assist in cultivating foreign business.' [NS, 9 April 1930.]

In 1931, the deepening depression forced McLeod to state clearly that he viewed the interests of the Bank of Nova Scotia as tied to those of the foreign corporations established in Canada:

New business is the life blood of any financial and commercial institution for without it progress cannot be made nor earnings maintained or improved; so that particularly under present conditions our Managers will do well to bear in mind the pressing need for constructive action. According to their opportunities and how these are availed of must necessarily depend in large measure the advancement and renumeration of the Bank's staff. [NS, 21 May 1931.]

During WWII, the emphasis placed on the development of foreign business was reduced — largely as a result of the closing of the Chicago and Boston branches of the bank, foreign exchange controls, and the demands of war financing. As exchange controls were eased in the 1950s, the flow of foreign capital to Canada again increased, and the Bank of Nova Scotia began to emphasize the purchase of existing Canadian firms by multinational corporations. The importance of this type of business was first recognised in the circulars of the Bank of Nova Scotia in November 1931, which advised that the bank was assisting a number of foreign concerns in locating going Canadian concerns who were interested in selling out. [NS, 17 Nov. 1931.] But it was not until a circular of August 1953 that the emphasis was placed on “investment opportunities in established Canadian companies”:

During the past month alone, enquiries have been received from London, England, Branch and United Kingdom visitors requesting information about the availability of the following types of business: construction, urban real estate, sand and gravel, pharmaceutical, footwear, steel and other metal fabrication. Branches are to keep us advised of any larger Canadian concerns known to be open for purchase and offering an investment in worth-while amounts. [NS, 21 Aug. 1953.]

By 1960, General Manager J. Douglas Gibson had formalized the bank's policy on this issue — and, since it was “frequently the case that when ownership of established businesses change, bankers are likely to be changed as well”, was touting the sale
of Canadian business to foreign firms as a way to increase the bank's business. [NS, 15 July 1960, 1.]

The post-WWII period saw some organizational fine-tuning in the Bank of Nova Scotia's New Business Department. In 1954, it was reorganized into a Business Development Department, and split into two divisions: the Canadian division, for firms domiciled in Canada; and the Foreign Division, for firms domiciled outside Canada. [NS, 15 Jan. 1954.] This is the first, explicit recognition of the importance and special needs of multi-locational Canadian companies, for business development within Canada had simply been assumed to be an integral part of every branch manager's duties up to that date. Business Development Offices were opened in Chicago, Los Angeles, and Houston, exclusively for the purpose of "knocking on doors" to obtain new business and maintain contact with the head offices of existing American clients and correspondents.22 It was also during this period that G.C. Hitchman (London Branch Manager from 1948 to 1951) extended the system of calling on British firms interested in Canada to include those companies located in Continental Europe; and the bank obtained a resident representative in West Germany.23 In 1964, the Business Development Departments were reorganized to ensure that the Branch Marketing Department (responsible for promotion of the bank's facilities) worked more closely with the domestic and foreign components of the Business Development Department to organize solicitation of the accounts of customers of other banks; to encourage the extension of the business of existing customers; and to build up the store of information on businesses — particularly import and export outlets — available for purchase by foreign concerns. [NS, 13 July 1964, 2.]

The competition for the business of multinational concerns, noted in the circulars of these banks, suggests that both the competitive attitude and the type of organization were pervasive. The type of "controlled competition" (which has characterized banking since at least the time that the Canadian Bankers Association became the official mouthpiece of all the banks) and the degree to which the banks monitored each others' activities meant that strategies adopted by one bank were soon known to the others. Since all the large Canadian chartered banks possessed foreign branches, they all had the in-
frastructural capacity to organize similar business development systems to those described above.  

For the Bank of Commerce, there is strong circumstantial evidence to suggest the existence of a special department designed to solicit US involvement in the Canadian economy. The Canadian Bank of Commerce formed a Foreign Department in 1919, though it was not until the late 1920s that “an organized plan replaced unsupported efforts of the individual manager to secure new business” with the establishment of a New Business Department. From the profile of Case R. Howard — “banker and financial expert” — published in *The Canadian Who's Who*, it appears that the solicitation of foreign investment in Canada was a function of the Foreign Department prior to the organization of the New Business Department. Howard was the manager of the Foreign Department of the Canadian Bank of Commerce in New York, from 1919 to 1934. In this capacity, Howard claimed that he had “been instrumental in bringing many American branch plants to Canada; through his personal efforts, over 200 companies, including the Campbell Soup Co. opened plants in Canada, providing new labour sources (sic) and bringing fresh capital into the Dominion to reduce unemployment.”

The addition of the accounts of the 200 firms, to which Howard refers, would certainly have provided an important impetus to the business of the Bank of Commerce in the 1930s. In 1928 the General Manager of the Bank of Nova Scotia wrote that: “An important and profitable part of the Bank’s business in Canada is represented by that received from branches and subsidiaries owned or controlled by houses or corporations situated in Great Britain, the United States and other foreign countries.” [NS, 7 March 1928.] Among the most important of the accounts obtained by the mid 1930s, were the Canadian subsidiaries of National Cash Register, Swift and Company, the British American Oil Company Ltd, the American Shipbuilding Company, and the Conger-Lehigh Coal Company. As early as 1924, a Royal Bank publication claimed that: “Many companies have made use of our facilities for obtaining information, from the time that they first considered the practical advantages of locating in the Dominion, to the time when operations were finally commenced.” The Bank of Nova Scotia’s official history records that, in the period after 1945, “some important relationships were established in West
Germany and Holland with firms who were developing connections in Canada; and that “persistent and repeated calls by Nicks [General Manager 1954-8] on top officers of European companies . . . gradually bore fruit.” It was clear that, in terms of the volume of new Canadian business gained, as well as the importance of the international connections acquired, these results paled in comparison to those from the New York branch where the operations of the New Business Department produced “remarkable results”.

**Advertising and Business Development** There is considerable evidence that, in the interwar period, the Canadian banks adopted formal policies and innovations in internal organization which were designed to facilitate and accelerate the rate of foreign direct investment in the Canadian economy. The fact that such advances elicited positive responses from many more American than European industrial firms, resulted from factors in the American economy, as well as geographical proximity. As Mira Wilkins has pointed out, the efforts of Canadian legislators and bankers “would not have been enough to ‘force’ investments by American manufacturing firms in Canada . . . unless American companies desired to sell in Canada and unless the market was there (or could be created), Americans would not have invested”.

So, while the growth in the size of the Canadian market after 1895 — resulting from increased immigration — provided greater inducement for American industrial firms to establish plants in Canada, it was also not until that period that the convergence of factors such as scale of production, technological change, and the passing of the American frontier, created a large number of US firms possessing the capability and will to expand overseas. In this sense, the timing of the emergence of the “industrialization by solicitation” strategy in Canadian banks accords with current interpretations of the process by which firms with multinational aspirations appeared in the US. It also coincides with important changes in the organization and management of industrial companies.

Similarly, the emergence of the “industrialization by solicitation” policy must be seen in the context of changes in organization and decision-making which occurred within the banks. In the period between 1900 and 1930, the large Canadian banks underwent a revolution in management which resulted in the
separation of tasks within the head office and, often, in the
hiring of university-educated people to perform each spe-
cialized task. In so far as evidence is available, the strategy of
soliciting American investment in the development of the Ca-
nadian economy seems to have emerged alongside this move-
ment towards specialization and the application of principles of
scientific management to the formulation of business develop-
ment strategies. Only when the banks had reached a certain
size and level of specialization, did they have the resources as a
branch system, and the personnel in head offices, to design
and operationalize the types of strategies outlined.

If the policy towards foreign direct investment adopted by
the Royal Bank after WWI was to succeed, it needed to be pub-
licized. That was the primary function served by the writings of
the bank’s economists, Graham F. Towers and Donald Marvin.
Towers graduated from St. Andrews College, in Toronto, and
McGill University (BA, with Honours in Political Economy) be-
fore being hired as an economist in the newly-formed Foreign
Trade Department of the Royal Bank. He was probably re-
sponsible for the production of *Canada’s Possibilities* (1920), and
for much of the copy for the Bank’s *Monthly Letter*. In 1924, *Can-
da of the Future* (an updated version of Canada’s Poss-
ibilities) was published under Towers’ name. Towers’ success
as a banker was outstanding, and his career with the Royal
Bank culminated in his appointment as Assistant General Man-
ger, in 1933, at the age of only 36. One year later, Towers was
appointed Governor of the Bank of Canada, and in 1944 he
became President of the Industrial Development Bank — hold-
ing both positions until 1954. Donald M. Marvin was an
American who obtained a PhD in economics and sociology
from the University of Pennsylvania in 1918, and joined the
Royal Bank as its chief economist in 1925. In 1926, Marvin
produced an update of *Canada of the Future*, called *Canada and
the Twentieth Century*; took over editorial responsibility for the
*Monthly Letter* and other Royal Bank publications; and it is cer-
tain that by 1927 he was responsible for writing the General
Manager’s address to the AGM. Marvin also wrote a considera-
ble amount of material on general economic conditions, issues,
and policies as part of his duties for the Bank — many of
which he published in periodicals.

Essentially *Canada’s Possibilities, Canada of the Future and Can-
da and the Twentieth Century* were prospectuses for investment
in Canada, and were produced mainly to be circulated amongst foreign industrialists, through the offices of the New Business Department. In *Canada of the Future*, Towers' orientation was clearly stated: "Deeming the location of new [foreign] industries in Canada a good thing for this country when their establishment is justified by the prospects for business, we do all that lies in our power to assist the movement."  

However, it was in *Canada and the Twentieth Century* — co-authored by Marvin and his assistant economist Edwin Van Buskirk — that the greatest heights of salesmanship were reached. The book's 143 pages contain a wealth of statistical material on Canada, but its description of the economy was clearly biased towards resource potential and infrastructure: only 4 pages were given over to describing existing Canadian manufacturing industry. Marvin and Van Buskirk placed considerable emphasis on the potential for hydro-electric development in Canada, as well as on the advantages which plentiful power provided for manufacturing industry. They stressed that the "Montreal area is excellently situated in regard to power facilities", and that power was "plentiful" in the Eastern townships. They also emphasized the transportation advantages of plant locations in Ontario, and comment that "with cheap water power as an added attraction, Ontario has become the manufacturing centre of the Dominion. Cheap power transmission has resulted in a surprising decentralization of manufacturing, and instead of having one over-congested manufacturing city, Ontario has a number of centres. . . ."  

In addition, Marvin and Van Buskirk set out various strategies which foreign companies should follow in preparing to establish industrial plants behind Canada's tariff walls. They stressed the importance of the knowledge of their branch managers, and the large amount of information on business conditions — in every part of Canada — which their reports to Head Office contained. This information network could also be of considerable importance for foreign manufacturers who wished to establish joint ventures, or rent premises, in Canada before building a plant of their own.

Many of the statistical series compiled by Marvin during the late 1920s were published regularly in the Royal Bank's *Monthly Letter* and other periodicals. Though less important as an avenue for publicizing the policy of the bank towards foreign firms, the *Monthly Letter* did enjoy a relatively wide circula-
tion, inside and outside Canada. In particular, the contents of the *Monthly Letter* demonstrate a fascination with the high-technology industries of the period; and in particular, with hydro-electric power generation. Marvin claimed that “the Royal Bank of Canada maintains the most complete figures in the country on the generation of electric energy.”40 The concern with hydro development that Marvin and Towers displayed resulted as much from its value as symbol and indicator of the technological revolution in industry — which had taken place during the previous two or three decades — as from the need to publicize the potential for industrial production which the availability of cheap hydro provided. At the time, cheap hydro, and the availability of hydro sites where industries such as pulp and paper could locate, were widely regarded by both the private and public sectors as the most attractive features Canada offered potential foreign investors.41

Available evidence suggests that this method of advertising was widely used. For example, J.H. Hodgins, manager of the Statistical Department in the Union Bank of Canada, Toronto, wrote in 1921:

> Probably some of the most progressive methods of publicity which our bankers have employed have been undertaken by the New York agencies of Canadian banks in their effort to make Canada better known throughout the United States. The Union Bank of Canada early initiated an educational campaign, through the issuance of two booklets, “Canada and Its Potentialities”, and a little later, “Trade Acceptances: Canadian Practice” . . . This subtle form of Canadian propaganda was further supplemented by advertisements designed to stress Canada’s rich resources.42

Copies of surviving pamphlets and booklets indicate that the Royal Bank of Canada, the Canadian Bank of Commerce, and the Bank of Montreal produced large amounts of such promotional material over the following fifty years. They were particularly active in encouraging “the army of American drillers, producers, suppliers, seismic groups and others” who were sharing in the “mutually beneficial programme of development” of Canadian oil and gas reserves after WWII.43

In the US the dissemination of these ideas was aided by the fact that both Towers and Marvin were well-known and well-connected to American financiers and academic economists. Towers’ book on foreign trade was widely used as a text in university courses, and he was in considerable demand as a dinner conference speaker.44 As a result of his academic interest in the US, Marvin was, in some ways, better-connected than Towers
with financiers and economists there. Marvin had presented, in
the States, numerous articles on the partial payment plan and
consumer credit in the US, and on trade relations between
Canada and the US.  

Similarly, Case Howard, from the Canadian Bank of Com-
merce, claimed to be “one of the best known bankers to go to
New York,”. After his retirement from the Bank of Com-
merce in 1934, Howard’s position as chairman of the Banking
Committee of the Canadian-American Trade Board of New
York provided an ideal vantage point from which to continue
his efforts to encourage American participation in the Cana-
dian economy.

The Bankers’ Vision of Canadian Development The emer-
gence of a business development strategy focusing on Ameri-
can participation in the Canadian economy occurred at a point
when Canadian bankers rationalized such a strategy as the
most effective basis for the development of their business.
While there was increasingly widespread recognition of the fact
that branch plants of large, diversified corporations would be
financed by the parent company, bank executives reasoned
that the consequent reduction in the demand for credit would
be offset by the business resulting from the growth of US firms
in the Canadian economy. In the period after 1914, the par-
ticipation of US firms in the Canadian economy was enshrined
in a vision of progress which tied the success of the Canadian
banks to American investment in Canada.

Marvin and Towers were certainly not the first Canadian
bankers to extoll (and exaggerate) the extent of Canada’s natu-
ral resources. However, they were acutely aware that re-
source potential was of little consolation to banks whose profits
came from financing economic activity: “mere possession of
natural resources is no guarantee of prosperity . . . Natural re-
sources must be exploited if they are to yield wealth.” In their
view, the future looked “very bright” for the possibility of US
Firms deciding to share in the “sure exploitation of our
unexcelled natural resources”.

Towers and Marvin envisaged considerable advantages for
the development of both the Canadian economy, and the busi-
ness of the bank, in such a strategy. The first advantage rested
on the idea that Canadians needed help with the process of re-
source exploitation, because of a lack of indigenous capital on a

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scale equivalent to the resources available: hence the inability of local entrepreneurs to develop resources at a speed which would allow economic growth in Canada to keep pace with that in the US. For Marvin, short term economic growth in Canada was inevitably tied to a partnership with US entrepreneurs, since new capital was “constantly needed to develop the latent resources” of Canada. During the last century, this has been one of the most persistent themes of conservative economic thought in Canada.

The second advantage of this partnership was that the exploitation of resources would create jobs, and levels of prosperity, in Canada which would raise immigration to the levels achieved immediately before WWI. Both Towers and Marvin firmly believed that Canada had the capacity, during the twentieth century, to achieve a rate of population growth similar to that of the US in the nineteenth century: “The situation of Canada in some ways is similar . . . to that of the United States a hundred years ago — we have a small population, large vacant areas of good farming land, and general resources capable of great development.” In addition, it was their belief that Canada had distinct advantages of timing and infrastructure which would make its development even more rapid than that experienced by the US. The growth of the US, in the first half of the nineteenth century, occurred without the advantages of telegraph, telephone, automobile, sophisticated agricultural machinery, and integrated capital markets. For these reasons, Towers and Marvin believed that, “just as the United States was the country of the nineteenth century, so will Canada be the country of the twentieth century.”

These sentiments were echoed by Case Howard, who, in 1926, dismissed the opening of the Canadian West as a mere trifle compared to the prosperity which American investment could bring. “For twenty-five years Canada has been slowly marking time. But now she is entering upon a period of great prosperity. During the next ten years I look for phenomenal growth, and I use that adjective advisedly.”

Towers believed that, in a “young country”, with a small population, (such as Canada) manufacturers would be hard-put to compete with the mass-produced goods of England and the United States without a tariff; but in the period before and immediately after WWI, the combination of the tariff and rapid population increase had provided a model for future de-
velopments.\textsuperscript{56} If population could be increased, and resource development could provide prosperity and thus a substantial buying power in Canada, US and other foreign firms would establish branch plants behind the tariff barriers, as they had begun to do before 1914. In this way, the industrial development of Canada could be speeded up considerably with American participation: generating a vast increase in the population to provide funds for commerce; and enticing a large number of industrial concerns who could use capital provided by the banks, while the credit-backing of their parent companies reduced risk to a minimum.

The incentive which Towers and Marvin offered to American industrialists contemplating setting up in Canada was simple: profit! Tower's most powerful appeal was to the opportunities for "quick profit and advancement" which occur in an economy undergoing rapid expansion; and which existed in "those halycon years of [US] advancement", but were less evident by the 1920s.\textsuperscript{57} The level of economic growth that Towers envisaged in Canada would call forth similar opportunities for fortunes to be made — allowing him to guarantee that such development "holds within it the promise of no small profit for our neighbours, our friends, and our close associates, the United States of America."\textsuperscript{58}

The final aspect of Tower's and Marvin's scenario for the development of the Canadian economy — and the business of the Royal Bank — was the vast amount of trade which would occur as a result of the American-led industrialization of Canada. The experience Canadian manufacturers had gained in producing munitions and other goods for overseas markets during WWI, caused widespread anticipation — not least among the internationally-orientated Canadian banks — that Canada would assume a larger position in the world trade of manufactured goods, after 1918. Initially, the bankers envisaged that trade would result from the establishment of American branch plants in Canada, to take advantage of the preferential tariffs applying to Canadian goods entering other British Dominions; as well as from the exchange of goods between the US and Canada.\textsuperscript{59} Despite the argument recently put forward by Glen Williams, there were some successful examples of the implementation of this model, such as the motor vehicle industry.\textsuperscript{60} So, while Marvin did chide Canadian manufacturers for not taking full advantage of the bank's foreign branches, and
of the economies of scale which might be achieved in producing for larger export markets; he recognized that implementation of the policies they were pursuing would result, inevitably, in the majority of Canadian trade taking place with the US. If Canadian manufacturers could tap foreign markets, the volume of trade to be financed would increase; but the bank was fully aware of the ease with which the trade between the US and Canada in resources and manufactured goods could be financed — and the low level of risk involved. As a result, they were anxious to promote trade between Canada and the US in every possible way.

Though Towers and Marvin emerged as the main proponents of the "industrialization by solicitation" strategy followed by the Royal Bank after 1928, they did not invent or initiate the idea. The New Business Department was formed before Towers was hired; and similar strategies for business development had been espoused within other banks at least as early as 1916. While the formulation of business development strategy, and the analysis of economic trends, became increasingly the preserve of academic economists; the ultimate decisions on the scope and orientation of activities remained largely with career bankers, who had proved their personal and ideological commitment to the banks, through many years service.

A more realistic interpretation, therefore, is that Towers and his successors in the Royal Bank were hired to work with, and extend, a business development strategy which had already been decided upon by the career bankers of the period. Towers et al were hired — in part — to sell this strategy to both American industrialists and those in Canada who needed to be convinced of its value; and, in part, to study trends in the economy so that the strategy could be flexible enough to take maximum advantage of new developments in industry and commerce. The Monetary Times, for example, gave editorial space for Senator W.C. Edwards' objections to the rhetoric of those who were predicting massive immigration to Canada in the interwar period, based on "inexhaustable resources", and "unlimited possibilities". Edwards believed that Canada was "very limited in variety of resources", as well as climatically and geographically marginal to the North American economy.

In countering such pessimism, Towers and Marvin used their academic training as economists. Their most important roles were in: (1) ensuring that the business development strat-
egy adopted by the bank represented an economic analysis — of Canadian development, and of the desirability of US participation therein — which was credible within the academic economics of the time; (2) compiling and analyzing statistics on the Canadian economy which could be used to provide foreign firms with statements of business prospects in Canada; (3) pulling together, through their publications and speeches, statistical materials demonstrating the potential for development that existed in Canada; and (4) giving lectures publicizing their analysis at academic, banking, and business conventions in the US and other foreign countries.

In the post-WWI period, academic economists within the Royal Bank continued to perform these tasks. In 1964, J.A. Galbraith, PhD (economist with the bank and, later, professor of economics at McGill) wrote that "Resources are available in Canada to be developed by whoever has the means to do so." He chose to appeal to the myth of equality-of-access to capital and resources, with arguments to the effect that: "foreign development of Canadian resources in no way prevents enterprising Canadians from developing the resources they choose." He pointed out the advantages in organization, capitalization, and marketing of products, which the participation of US firms brought. In addition, Galbraith went to some length to refute the argument that Canada was particularly vulnerable to US influence because of US direct investment and Canadian reliance on net capital inflow. He wrote that if Canada "follows policies that are conducive to keeping the country a profitable place in which to put funds, it need not fear sudden lapses in the flow of capital coming from outside. Unwise policies at home, however, will scare capital away so that in the end . . . Canada is vulnerable — but vulnerable to bad policies at home." Inadvertently he had pointed, very clearly, to the dilemma which faces any country whose economy is closely tied to that of a stronger — and therefore dominant — economic power.

It seems likely that the same type of revolutionary change in formulation and implementation of business development strategies — associated with the hiring of specialists with university training in economics — occurred in all the chartered banks in Canada in the interwar period. In 1927, for example, the Bank of Nova Scotia employed University of Toronto economist, Gilbert Jackson, to organize a department responsible
for collecting economic data; and, in 1930, J. Douglas Gibson was hired to be the first full-time staff member of an Economics Department. In the period before WWII, the Bank of Nova Scotia employed both Professors J.F. Parkinson, and D.C. McGregor, to supplement Gibson's efforts on a part-time basis.68 One of the advantages of an Economics Department rested with the fact that, by 1931, they felt:

able to answer enquiries on practically any subject having a bearing on trade conditions or expansion in Canada. This includes the making up of comprehensive surveys of conditions affecting any industry or group of industries including statistics of imports, exports, consumption, production, etc., of any product as well as information on labour costs, power facilities and costs, taxes, railway facilities, etc., in the principal cities of the Dominion.69

During the same period, the Bank of Commerce employed McMaster University economist, H. Michelle, to oversee the collection of economic data.70

What the academic economists employed by the Canadian banks represented, therefore, was a managerial revolution in Canadian financial institutions akin to the one which occurred in US industry in the period 1880-1930.71 It was made possible by the growing emphasis on empiricism and analytical methodology which was emerging within academic economics — and by the “non-ideological” (laissez-faire) attitudes of the economists.72 At the same time, the successful implementation of bank strategies devised in this period, required the introduction of a new level of management within banking: one which specialized in analytical and numerical research, and in the use of academic economics in the service of the banks. More detailed research on the scope and impact of the specialization of economic decision-making within Canadian financial institutions (and the role of academics in that process) is clearly a priority, if the theoretical constructs of the “new political economy” are to be firmly rooted in the study of twentieth century Canadian business.

Conclusion Before 1914, there is no evidence in the records examined to support the Naylor-Clement thesis that the Canadian banks actively “sought out” American investors; or that bankers clearly identified their own interests, and those of the financial institutions for which they worked, as complimentary to those of American industrialists. I have argued that this was largely because the Canadian banks were not of a scale, or level, of organization that would allow them to become in-
volved. The mixture of economic factors (particularly population size and infrastructure) that were needed to attract foreign investment had not been established; and the banks themselves were distracted by the possibilities offered by the opening of Western Canada, and the potential for operating outside Canada.

However, for a brief period before WWI, the possibilities of the various aspects of the National Policy began to be realized. In that example, and in the prospects for American development of Canadian resources, the leading Canadian bankers saw the seeds of their own prosperity. From 1918, executives in the Canadian banks — supported by the expertise of the first academic economists to be employed by the institutions — implemented policies which were designed to shape and accelerate the pace of Canadian economic development in accordance with the model that had appeared before WWI. To a large degree, the role Canadian bankers played in bringing foreign capital to Canada reflected the capacity for rationalizing business development strategies, and organizing contact networks, which emerged as a result of the managerial revolution in the interwar period. Subsequently, Canadian bankers were prepared to do everything in their power to encourage and facilitate foreign direct investment in the Canadian economy. Though such investment came primarily from the US, financiers also pursued European corporations with considerable vigour. If the National Policy was an “invitation to industrialization”, it was not until the interwar period that the banks began to purposely solicit positive responses to that invitation. In doing so, they played an important role in developing the Canadian economy of the modern period.

Notes

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4 This idea rests on their interpretation of the origins of the "National Policy" as a strategy for indigenous commercial and financial (but not industrial) development, introduced by the merchant-financiers of the John A. MacDonald government. See Naylor, *History of Canadian Business* 1, 2-15, and Clement, *Continental Corporate Power* 51-2. (See n. 3 above.)


6 Panitch, "Dependency and Class," 21-4. (See n. 3 above.) As yet, Canada lacks a major analytical history of the Canadian economy which demonstrates the utility of focusing on class struggle.

7 Glen Williams, "The National Policy Tariffs: Industrial Underdevelopment Through Import Substitution," *Canadian Journal of Political Science* XII: 2 (June, 1979), 333-86.


10 Ibid., 17.

11 Naylor explains this in terms of the fact that "Canada's commercial and financial system grew up geared to the international movement of staples, rather than abetting secondary processing for domestic markets" and that the Canadian banking system "took a form appropriate to facilitating the movement of staples from Canada to external markets rather than promoting secondary industry." *History of Canadian Business* I, 4 and 67. Naylor attempts to present evidence of bank discrimination against Canadian industrialists and an interpretation of bank credit policies *History of Canadian Business* I, 107-10. Although his evidence is fragmentary, it is accepted by Clement and incorporated into his analysis of Canadian development — see *Continental Corporate Power*, 50 and 62.

12 See, for example, the alternative theories proposed by Panitch "Dependency and Class"; Glen Williams, *Not for Export* (Toronto, 1983); and Gordon Laxer, "Class, Nationality and the Roots of Foreign Ownership" (Unpublished manuscript, Nov. 1983) Sociology Department, University of Alberta.


15 The proportion of bank assets accounted for by bonds grew quite steadily throughout the period from 1880 to 1935 — see: E.P. Neufeld, *The Financial System of Canada: Its Growth and Development* (Toronto, 1972), Table 4.8, 114-5, and Table 4.9, 116; and J.D. Gibson, "The Trend Of Bank Loans
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16 The chartered banks made some loans to farmers on the security of threshed grain and livestock, and for the purchase of seed grain, but these loans made up a small proportion of total farmer-indebtedness in Western Canada. There had "always been difficulty in adapting the practices of the banks to the conditions of prairie farming.": W.A. Mackintosh, "Farm Credit," in Economic Problems of the Prairie Provinces, ed. Mackintosh (Toronto, 1935), 271. See also D.A. MacGibbon, Report of the Commission on Banking and Credit with Respect to the Industry of Agriculture in the Province of Alberta (Edmonton, 1922).


19 See for example, Royal Bank of Canada, Donald Marvin File, Mimeo "Annual Meeting 1929" (RBA Montreal).


22 NS, 19 August 1955; and Schull and Gibson, Scotiabank, 248. (See n. 21 above.)

23 Schull and Gibson, Scotiabank, 218.

24 By 1927 the Canadian Chartered Banks had a total of 167 branches outside Canada, although only 18 of these branches were in the US or UK. See Neufeld, Financial System, Table 4.12, 126. (See n. 15 above.)


27 For details of relationships between American companies and the Bank of Nova Scotia see Neil C. Quigley "Bank of Nova Scotia Operations in the U.S."


29 Schull and Gibson, Scotiabank, 218.


35 Towers, Canada, 1.

37 Ibid., 73.
38 Ibid., 71.
39 Ibid., 117-18.
41 See, for example, the attention paid to hydro in: Canada, Department of Trade and Commerce, Commercial Intelligence Service, Canada as a Field for British Branch Industries (Ottawa, 1922).
42 J.H. Hodgins "Publicity Methods in the Banking Field" Monetary Times 66 (Jan. 7th) 1921, 72.
43 Among the pamphlets consulted in the preparation of this paper are: The Canadian Bank of Commerce, Canadian Goods and the World Market (Toronto, 1921); The Royal Bank of Canada, Canada's Oil: An outline of basic Government Regulations of interest to all oil men (Montreal, 1950); and the Union Bank of Canada, Canada's Northern Oil Fields (New York, 1921). Existing copies are held mainly in U.S. libraries. Quotation is from Royal Bank, Canada's Oil, 5.
44 Royal Bank of Canada, Graham F. Towers File, "Business Relations of Canada and the US: Address to the Bankers Association For Foreign Trade," (Cleveland, 20 Feb. 1922); and, "Canada and Canadian Business Relations with the United States: Address delivered at the Annual Convention of the Association of Reserve City Bankers," (Kansas City, 22 May 1922), (RBA, Montreal).
45 Marvin File, (RBA, Montreal).
47 Early recognition of this trend appeared in Thomas Fyshe "The Growth of Corporations," JCBA 2 (1895), 197-203; and for later comments on its impact see Gibson, "Bank Loans and Investments" and H.F. Patterson, quoted in Schull and Gibson, Scotiabank, 169.
48 In 1908 Edmund Walker (Canadian Bank of Commerce) compared scepticism about Canada's agro-climatic resources to that which had prevailed about the American mid-west in the early nineteenth century. It is important to note, however, that Walker's speech contains none of the direct appeals for American investment in Canada which characterized the rhetoric of the interwar period. B.E. Walker, "The Industrial Future of Canada: Address at the 140th Annual Banquet of the Chamber of Commerce of the State of New York," (19 November, 1908) JCBA 16 (1909) 107.
49 Marvin and Van Buskirk, Twentieth Century, 106.
51 Marvin File, "President's Address 1927", 11-12.
54 Towers File, "Canada and Canadian Business", 16.
55 Howard, "United States Investments", 90.
57 Ibid., 4.
59 Marvin and Van Buskirk, Canada and the Twentieth Century, 27; Towers File, "Canadian Export Trade and Markets, 1922: Speech to the Toronto Canadian Export Club, 10 Jan. 1922; Howard, "United States Investments": 89;
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and the Canadian Bankers' Association editorial on Howard, "Canada's Foreign Trade", 135.

60 Glen Williams, Not For Export.

61 Marvin File, "Speech to the Canadian Chamber of Commerce, June 8, 1928."

62 See for example: Towers File, "Our Business Partnership: Speech to the Foreign Trade Council, Charleston South Carolina, 28 April 1928,; and Marvin File, "The Library".

63 Work on this, and other aspects of the managerial revolution in Canadian banks will be documented in the author's PhD dissertation.

64 Editorial: "Our Resources and Their Development," Monetary Times 60 (28 Nov. 1919).


66 Ibid., 9. Galbraith was also influenced in the period 1962-4 by the weakness of the Canadian dollar, which had just been pegged to the U.S. dollar, but at a level which could only be maintained if capital continued to flow into Canada.

67 Ibid., 6.

68 Schell and Gibson, Scotiabank, 150-151.


70 The Canadian Bank of Commerce, A New Index of Wholesale Prices in Canada (Toronto, 1927).

71 Chandler, Visible Hand; Noble, America by Design.

72 See, for example, S.E.D. Shortt's description of James Maver in: The Search For An Ideal: Six Canadian intellectuals and their convictions in an age of transition 1890-1930 (Toronto, 1976) pp. 119-135.